

Message Text

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NSAE-00 PA-01 SS-15 PRS-01 SP-02 USIA-06 TRSE-00

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R 131605Z AUG 76

FM AMEMBASSY ROME

TO SECSTATE WASHDC 9429

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

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C O N F I D E N T I A L SECTION 1 OF 2 ROME 13246

HQ USAF FOR AF/ATF

E.O. 11652: GDS

TAGS: NATO, AWACS, MILI

SUBJECT: NATO AIRBORNE EARLY WARNING (AEW): PROCUREMENT FUNDING

REF: STATE 179556, DTG 210017Z JUL 76

SUMMARY. IT WOULD BE BOTH DIFFICULT AND DELUSORY TO BE
SANGUINE REGARDING ANY SUBSTANTIAL ITALIAN CONTRIBUTION TO
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AWACS IN THE FORSEEABLE FUTURE, GIVEN ITALY'S WELL-KNOWN

ARRAY OF POLITICAL AND ECONOMIC PROBLEMS. HOWEVER, THE PICTURE IS NOT TOTALLY DARK. THERE ARE ARGUMENTS WE CAN MUSTER AND TACTICS TO EMPLOY WHICH MIGHT INDUCE SOME DEGREE OF ITALIAN PARTICIPATION. THIS TELEGRAM DISCUSSES MAJOR PROBLEM AREAS, POSSIBLE INDUCEMENTS TO THE GOI, AND TACTICS TO BE EMPLOYED. END SUMMARY.

PROBLEM AREAS

1. WERE THE DECISION ON AWACS LEFT TO THE ITALIAN AIR FORCE (IAF) IN PARTICULAR, OR THE MINISTRY OF DEFENSE (IMOD) IN GENERAL, ITALY WOULD ALMOST CERTAINLY NOT PARTICIPATE IN PROCUREMENT OF AWACS, AND ONLY MUCH LATER MIGHT RELUCTANTLY PICK UP SOME SMALL PART OF Q&M COSTS.

2. IN THE IAF, AWACS HAS NO PRIORITY. WE UNDERSTAND THAT A SENIOR IAF STAFF OFFICER RECENTLY TOLD A USAF OFFICER FLATLY THAT THE IAF DOESN'T WANT AWACS. HITHERTO THE IAF HAS BEEN DOBIOUS NOT ONLY ON COST GROUNDS, AS NOTED BELOW, BUT ALSO IN TERMS OF COVERAGE. NOW THAT THE PROGRAM WILL PRESUMABLY SHRINK FROM 32 AIRCRAFT TO 27, ITS BENEFIT TO ITALY WILL BE BROUGHT ALL THE MORE INTO QUESTION. IN THE IAF VIEW, ANY FUNDING SHOULD BE DIRECTED TO ITS MORE FUNDAMENTAL NEEDS: MODERN AIRCRAFT, BASIC ARMAMENTS, BASE HOUSING AND BETTER PAY (USDAO ROME DTG 271455Z JUL 76 NOTAL).

3. AN EQUIPMENT IMPROVEMENT BILL FOR THE IAF (AND A SEPARATE ONE (\$1.3 BILLION) FOR THE ARMY AS WELL) HAS BEEN LANGUISHING IN THE PARLIAMENT FOR ALMOST TWO YEARS WITHOUT PASSAGE. GIVEN THE COMPOSITION OF THE NEW ITALIAN LOWER HOUSE (47 PERCENT LEFT OF CENTER) AND THE FACT OF A MINORITY, ONE-PARTY CHRISTIAN DEMOCRATIC GOVERNMENT PUBLICLY COMMITTED TO SHARP CUTS IN GOVERNMENT SPENDING AND POSSIBLY INCREASED TAXES, THERE IS SOME QUESTION AS TO WHETHER THE EQUIPMENT BILL WILL BE PASSED. MOREOVER, THE PROJECTED IAF FUNDS (ABOUT \$1.5 BILLION OVER TEN YEARS AT TODAY'S EXCHANGE RATE) WOULD NOT SUFFICE TO BRING IAF EQUIPMENT UP TO NATO STANDARDS. IF APPROVED, THEREFORE, THE AIR FORCE WOULD BE LOATH TO SEE ANY PART OF THOSE FUNDS DIVERTED TO AWACS.

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4. OUR PROBLE IS COMPOUNDED BY A CONVICTION IN THE DEFENSE MINISTRY OF INADEQUATE SUPPORT AND ATTENTION TO THE SOUTHERN FLANK BY NATO IN GENERAL AND THE USG IN PARTICULAR. SENIOR ITALIAN OFFICERS FEEL (USDAO ROME DTG 301530Z JUN 76 NOTAL) THAT TOO FEW RESOURCES ARE BEING MADE AVILABLE TO THE AREA OF GREATEST POTENTIAL RISK, THE TROUBLED MEDITERRANEAN, AND RELATIVELY TOO MANY TO THE RELATIVELY STABLE CENTRAL FRONT (PAGE 3A, SHAPE 6100/18-4-3-S176).

5. PART OF THAT FEELING OF NEGLECT DERIVES FROM THE ITALIAN CONVICTION OF INADEQUATE USG SUPPORT FOR INFRASTRUCTURE PROJECTS OF INTEREST TO ITALY (ROME 14597, DTG 081753Z OCT 76 NOTAL). THAT ACCUSATION WILL BE MAGNIFIED IN ITALIAN EYES WHEN WE SUGGEST (ROME 12334 DTG 310355Z JUL 76 NOTAL) A FIFTY PERCENT INCREASE IN INFRASTRUCTURE FUNDING, EVEN THOUGH PROPORTIONATELY THE ITALIAN SHARE IS MODEST (7.93 PERCENT).

6. ANOTHER, BUT RELATIVELY MINOR, ITALIAN REASON THE ITALIANS ARE LEARY OF AWACS IN CONTINUING BALANCE OF PAYMENTS (BOP) DIFFICULTIES WHICH GENERATE PARTICULAR ATTENTION TO REDUCTION OF FOREIGN EXPENDITURES, VIDE WITH RECENT THREE MONTH EXTENSION OF ITALY'S PRIOR DEPOSIT SCHEME.

INDUCEMENTS

7. DESPITE THIS FORMIDABLE ARRAY OF BARRIERS TO ITALIAN PARTICIPATION IN AWACS, THE CASE IS NOT NECESSARILY LOST. OUR BASIC POSTURE VIS-A-VIS THE ITALIAN GOVERNMENT SHOULD BE SEEN AS BASED ON THE ASSUMPTION THAT, IF ITALY WISHES TO SIT AT THE LEAD TABLE WITH THE US, CANADA, THE FRG AND GREAT BRITAIN, IT WILL PAY THE PRICE OF ADMISSION, I.E., ASSUME A FAIR SHARE OF IMPORTANT, NATO-WIDE PROGRAMS.

8. WE SHOULD MAKE AN ITALIAN ROLE IN AWACS AS PALATABLE AS POSSIBLE BY EMPHASIZING THAT SUCH PARTICIPATION WILL TRANS-LATE INTO IN-COUNTRY PRODUCTION AND JOBS. WE SHOULD DEVELOP ASAP AN ILLUSTRATIVE PLAN FOR ITALIAN INDUSTRIAL PARTICIPATION AIMED AT SYSTEM COMPONENTS WHICH THE ITALIANS COULD LOGICALLY PRODUCE, PRICED SO AS TO DEMONSTRATE THAT THE ITALIAN FOREIGN EXCHANGE CONTRIBUTION TO AWACS PROCUREMENT AND O&M WILL BE CONFIDENTIAL

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OFFSET BY ONE-THIRD OR MORE (VARA 4, REFTEL) AND DEMONSTRATING THE INTANGIBLE BUT REAL BENEFITS COMING FROM TECHNOLOGY TRANSFER.

9. THE U.S., AND PERHAPS OTHER ITALIAN ALLIES, SHOULD GIVE, AND SHOULD BE SEEN TO BE GIVING, SERIOUS ATTENTION TO POSSIBLE ACQUISITION OF SOME OF THE EXCELLENT ITALIAN-DEVELOPED WEAPONS SYSTEMS, SUCH AS THE SPADA LOCAL AIR DEFENSE SYSTEM, THE ASPIDE AIR-TO-AIR MISSILE, OR ARGUS-10 RADARS. ANY SUBSTANTIAL BUY BY AN ALLIED COUNTRY WOULD NOT ONLY CONTRIBUTE IMPORTANTLY TO THE MUCH-ADVERTISED TWO-WAY STREET BUT WOULD ALSO MAKE IT EASIER FOR ITALY TO DEFEND IN PARLIAMENT A ROLE IN AWACS.

10. THE USG SHOULD MAKE A VISIBLE EFFORT IN BRUSSELS TO

EXHIBIT GREATER SYMPATHY AND SUPPORT FOR ITALIAN INFRA-STRUCTURAL ASPIRATIONS. THE EXTENT OF THAT SUPPORT WILL HELP CONDITION NOT ONLY THE ITALIAN VIEW OF AWACS BUT ALSO THE PROPOSED 50 PERCENT HIKE IN THE PRESENT FIVE-YEAR INFRASTRUCTURE CEILING.

11. THE DEPARTMENT (REFTEL) HAS EXPRESSED THE HOPE THAT THE GOI WILL ACCEPT A PROCUREMENT PROGRAM WITH A FRONT-END LOAD, I.E., CONTRIBUTION OF ABOUT \$150 MILLION, OF A TOTAL ESTIMATED BILL OF 260 MILLION CURRENT DOLLARS, DURING THE EARLY YEARS OF THE PROGRAM. THIS WOULD AMOUNT TO EITHER \$25 O \$18.75 MILLIONN ANNUALLY FOR THE FIRST SIX OR EIGHT YEARS RESPECTIVELY (AS AGAINST \$17.33 MILLION P.A. WERE THE TOTAL ITALIAN CONTRIBUTION CONSTANT FOR THE 15-YEAR PROGRAM), AND PRESUMABLY REDUCE THE GOI CONTRIBUTION TO AROUND \$12.22 OR \$15.71 MILLION ANNUALLY FOR THE LAST NINE OR SEVEN YEARS OF THE PROGRAM.

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12. WHILE WE WOULD NOT AND COULD NOT DELUDE THE ITALIANS
WITH A NUMBERS GAME, THE EMBASSY WOULD RECOMMEND A CAREFULLY
STRUCTURED BACK-END LOAD. SINCE THE IMMEDIATE PRIORITY IS
TO BRING THE GOI INTO THE PROCUREMENT PHASE, AT A TIME WHEN
THE ITALIAN ECONOMY IS UNDERGOING SERIOUS STRAINS, IT WOULD
BE PREFERABLE TO REDUCE THE SIZE OF THE BILL IN THE NEAR
TERM TO THE MINIMUM PRACTICABLE AMOUNT, ESCALATING AS TIME
GOES ON AND THE ECONOMY PRESUMABLY GROWS MORE CAPABLE OF
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CARRYING THE LOAD.

13. LISTED BELOW ARE VARIOUS POSSIBLE PERMUTATIONS OF A
BACK-END LOAD:

ANNUAL ITALIAN PAYMENTS IN MILLIONS OF DOLLARS

	OPTION A	OPTION B	OPTION C	OPTION D	OPTION E
YEAR					
1	15	12	7	4	3
2	15	12	9	6	6
3	15	12	11	8	9
4	15	12	13	10	12
5	15	12	15	21	15
6	15	12	17	14	18
7	15	12	19	16	21
8	19	12	21	18	22
9	19	14	21	20	22
10	19	25	21	25	22
11	19	25	21	25	22
12	19	25	21	25	22
13	19	25	21	25	22
14	20	25	21	26	22
15	21	25	22	26	22
TOTALS	260	260	260	260	260

THE POINT HERE IS NOT FOR THE SUG TO ATTEMPT SELECTION FOR
THE GOI OF THE LEAST UNATTRACTIVE PAYMENT MODE BUT TO
DEVELOP AN ARRAY TO ILLUSTRATE TO ITALIAN POLITICAL LEADERS
THAT AN EARLY ROLE IN AWACS PROCUREMENT IS INDEED FEASIBLE.

14. IN PRESENTING SUCH AN ARRAY (SEE TACTICS BELOW), WE SHOULD STRESS THAT, OF THE TOTAL ESTIMATED PRICE TAG OF \$260 MILLION OVER 15 YEARS, (86 MILLION OR MORE (PARAS 8 AND 9 ABOVE) WOULD BE OFFSET BY LOCAL PRDUCTION AND POSSIBLE OTHERWEAPONS PROCUREMENT, LEAVING ONLY \$174 MILLION OR LESS AS A BOP COST, A FOREIGN EXCHANGE COST OF LESS THAN \$12 MILLION ANNUALLY OVER THE ENTIRE PERIOD. TO PUT THIS IN CONTEXT, CALENDAR 1975 ITALIAN FOREIGN EXCHANGE EXPENDITURES (AT AVERAGE EXCHANGE RATE) WERE:
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A) \$47.7 BILLION FOR ALL GOODS AND SERVICES,

B) \$35.5 BILLION FOR IMPORTS OF MERCHANDISE, INCLUDING ARMAMENTS,

C) \$206 MILLION IN PAYMENT OF OFFICIAL GOVERNMENT TRANSACTIONS ABORAD, EXCLUDING ARAMENTS.

TACTICS

15. AS NOTED ABOVE, THE ITALIAN MILITARY ESTABLISHMENT UNDERSTANDABLY WOULD BE LOATH AT THIS POINT TO SEE ANY FUNDS, FROM THE EQUIPMENT BILLS OR OTHER FUTURE APPROPRIATIONS, DIVERTED INTO AWACSQ. NEVERTHELESS, IF ANY ITALIAN CONTRIBUTION TO AWACS IS MADE APART FROM AND ABOVE THE EQUIPMENT BILLS, WE BELIEVE THE REACTIONS OF THE GENERALS AND ADMIRALS WULD BE MUTED. THAT AWACS, IN THESE CIRCUMSTANCES, WOULD COMPLEMENT AND INCREASE THE EFFECTIVENESS OF AIR DEFENSE AND OTHER EQUIPMENT TO BE ACQUIRED UNDER THOSE BILLS IS A POWERFUL ARGUMENT VIS-A-VIS THE ITALIAN AIR FORCE, ARMY AND NAVY. AT THE SAME TIME, WE SHOULD ALSO CONSIDER WHETHER AND HOW WE AND OTHER NATO GOVERNMENTS MIGHT BRING BENEFICIAL INFLUENCE TO BEAR IN ADVANCING THE EQUIPMENT IMPROVEMENT BILLS IN THE PARLIAMENT.

16. IN ANY EVENT, THERE IS LITTLE WE CAN CURRENTLY AND USEFULLY DO WITH THE ITALIAN MILITARY TO ADVANCE THE CAUSE OF AWACS. WE MUST RECOGNIZE THE PROBLEM AS ESSENTIALLY POLITICAL AND DEAL WITH IT IN THAT SENSE. BEYOND EMPLOYMENT OF THE BASIC MILITARY ARGUMENTS, WE SHOULD PUT THE QUESTION AT THE RIGHT MOMENT TO THE DECISION-LEVEL OF THE GOI AS TO WHETHER IT WILL LIVE UP TO ITS ROLE AS A SENIOR POLITICAL AND ECONOMIC PARTNER IN NATO. WE SHOULD BE PREPARED TO POINT OUT THAT THE PROGRAM OFFERS ADDITIONAL JOBS AT A TIME WHEN UNEMPLOYMENT IS A MAJOR PREOCCUPATION, THAT THE FISCAL BURDEN IS MANAGEABLE, AND THAT THE CONSEQUENCES FOR BOP ARE INSIGNIFICANT.

17. HOW WE GET THERE FROM HERE IS THE PROBLEM. WE DO NOT
SUGGEST FURTHER BRIEFINGS OR SYMPOSIA DESIGNED TO DISPLAY
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THE MILITARY MERITS OF AWACS; THE ITALIANS ARE FAMILIAR
ENOUGH WITH THEM. TO GET EFFECTIVE ATTENTION FROM THE
ITALIAN LEADERS, WE SUGGEST A LETTER FROM SECRETARY RUMSFELD
TO NEW DEFMIN LATTANZIO WHICH WOULD SKETCH HOW SERIOUSLY
WE CONSIDER THE PROBLEM OF AWACS, POINT OUT THERE ARE
RELEVANT ASPECTS WHICH WE HAVE NOT YET HAD THE OPPORTUNITY
OF PRESENTING TO THE GOI, AND REQUEST LATTANZIO'S CONCUR-
RENCE IN A MEETING WHICH WE PROPOSE TO ORGANIZE FOR THAT
PURPOSE IN ROME WITH SENIOR ITALIAN OFFICIALS FROM THE
MINISTRIES CONCERNED (OFFICE OF THE PRIME MINISTER, IMOD,
MFA, BUDGET, TREASURY AND INDUSTRY) WITH A US DELEGATION
TO BE HEADED BY A QUITE SENIOR DOD OFFICIAL. (SUCH A
LETTER MIGHT WELL LEAD WITH A CONGRATULATORY WORK FOR THE
NEW MINISTER.)

18. SUCH A USG PRESENTATION SHOULD TAKE INTO ACCOUNT THE
FOREGOING CONSIDERATIONS, PLAY UP OUR EXPECTATIONS THAT
ITALY WILL NOT AKE A BACK SEAT, STRESS OFFSET WITH THE
MAXIMUM POSSIBLE SPECIFICITY, AND PUT BOP IN ITS PROPER
PERSPECTIVE.

19. IN THE END, DOMESTIC CONSIDERATIONS MAY WELL ELICIT
A NEGATIVE ITALIAN RESPONSE. BUT, IF WE ARE TO SUCCEED,
A COURSE ALONG THE ABOVE LINES WOULD APPEAR TO HOLD
MAXIMUM PROMISE.VOLPE

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